

## Finra reform getting traction in Washington

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In a Washington dominated by partisan battles over health care and tax reform, something much lower profile but perhaps more important to brokers may be gaining momentum: Finra reform.

The Financial Industry Regulatory Authority Inc., the industry-funded broker-dealer self-regulatory organization, is getting a fair amount of attention in the capital, according to David Burton, senior fellow in economic policy at The Heritage Foundation.

A recent House oversight hearing addressed interest in Finra reform, as did the Securities and Exchange Commission nominees at their Oct. 24 hearing. Mr. Burton, a leading Finra critic, has himself kept a spotlight on Finra by hosting an event with Finra president and chief executive Robert Cook on Oct. 6 and an event on Nov. 3 featuring think tank experts, industry and investor advocates.

"Finra is much more on people's radar than it has ever been in the past," Mr. Burton said at the Nov. 3 Heritage panel. "It's clear that [lawmakers] are hearing from people back home about problems. There's a lot of movement here in a way there never has been before."

### Power and Secrecy

Nov. 3 panelists asserted that Finra wielded too much power while conducting its operations and governance behind closed doors. They discussed a litany of potential reforms, such as making Finra board deliberations public, changing the board structure, requiring Finra to get SEC approval for its budget, subjecting Finra to the Freedom of Information Act, making arbitration proceedings and awards more transparent and requiring Finra to publicly reveal how it spends fine proceeds and potentially requiring it to put them in an investor relief fund.

InvestmentNews also explored many of these areas in a recent in-depth analysis of Finra.

Chris Iacovella, chief executive of the Equity Dealers of America, a group that includes independent broker-dealers, offered several Finra-reform ideas at the Heritage panel as well as one that he sees as a potential silver bullet: Take away Finra's enforcement responsibilities and give them to the SEC, where there is more recourse for firms to fight back.

"We think Finra should just be a compliance organization ... and all of the enforcement is handed off to a real government regulator," Mr. Iacovella said. In that arrangement, "I think we can overcome a lot of the issues that have cropped up under the previous leadership over the last eight years."

Finra's multiple personalities—in some ways it acts like a government agency, yet it is a private-sector organization—frustrates Thaya Brook Knight, associate director of financial regulation studies at the Cato Institute, a libertarian think tank. She said that folding Finra into the SEC, which oversees its operations, would solve some of the problems.

"Rather than having the worst of both worlds, let's just have the worst of one world and make it another part of the government," she said on Nov. 3.

### Listening Hour

A Finra spokeswoman didn't address criticisms leveled at the Nov. 3 event. She referred to Mr. Cook's responses in his Oct. 6 Q&A with Mr. Burton, where he indicated that as part of Finra 360, the organization's self-assessment launched earlier this year, the regulator would consider making its budget and fine spending more transparent.

The listening tour that Mr. Cook launched when he took the Finra helm in August 2016 has been welcomed by critics like Mr. Iacovella.

"He wants to do the right thing and figure out what the organization should look like over the course of the next five to 10 years," Mr. Iacovella said in an interview.

Finra reform may not fall into the usual Washington partisan black hole.

"This is an area where we can reach a bi-ideological, bipartisan consensus about reform that makes sense," Mr. Burton said. "I do believe that the new leadership at Finra won't resist constructive reform."